

VZCZCXRO1072
RR RUEHCN RUEHGH RUEHVC
DE RUEHGZ #2347/01 3330901
ZNR UUUUU ZZH
R 290901Z NOV 06
FM AMCONSUL GUANGZHOU
TO RUEHC/SECSTATE WASHDC 5514
INFO RUEHOO/CHINA POSTS COLLECTIVE
RULSDMK/DEPT OF TRANSPORTATION WASHDC
RUCPDOG/USDOC WASHDC
RUEAIIA/CIA WASHDC
RUEKJCS/DIA WASHDC
RHHMUNA/HQ USPACOM HONOLULU HI

UNCLAS SECTION 01 OF 02 GUANGZHOU 032347

SIPDIS

STATE FOR EB/TRA/AN, EAP/CM
USPACOM FOR FPA

SENSITIVE
SIPDIS

E.O. 12958: N/A

TAGS: [EAIR](#) [ECON](#) [KTIA](#) [CH](#)

SUBJECT: China Southern Airlines: Turning a Profit but No Plans for
New U.S. Routes

REFERENCE: A) Guangzhou 11471; B) Guangzhou 8841; C) 05 Guangzhou
32752

(U) This message is sensitive but unclassified. Please handle
accordingly.

11. (SBU) SUMMARY AND COMMENT: In a November 28 meeting with the
Consul General, China Southern Airlines President Si Xianmin
discussed his airline's improving financial health, its relationship
with U.S. suppliers and airlines, the state of the Chinese airline
industry, and the recent technical test flight of an A380 in
Guangzhou. China Southern currently operates only one route to the
U.S. (via Los Angeles); and previous plans to open a Beijing-New
York route are on hold. The company remains at the mercy of an
inefficient fuel pricing system and faces increasing competition
from international carriers with better brand recognition and more
international routes. END SUMMARY AND COMMENT.

Company Overview

12. (SBU) China Southern has the largest airline fleet in China and
the most domestic routes, according to China Southern President Si
Xianmin. By the end of 2006, China Southern will have 300
airplanes, of which approximately 200 are Boeing and 100 are Airbus.
(Si was careful to note that two-thirds of China Southern airplanes
are Boeing.) The airline served more than 40 million passengers in
2005, accounting for over one-third of the China market and ranking
10th in the world. Si expects that China Southern will serve more
than 50 million passengers in 2006.

Financial Status

13. (SBU) After reporting losses throughout 2005 and the first half
of 2006, China Southern turned a profit in the third quarter of
12006. Si cited lower fuel prices as an important - but not the only
- factor affecting the company's improved financial performance.
Nevertheless, he complained that China's fuel pricing system is slow
to react to international price declines, though quick to respond to
increases.

14. (SBU) Si indicated that China Southern's performance in the
fourth quarter would not reach third-quarter levels, largely because
of a traditional downturn in market demand during the winter season.
Nevertheless, he said the airline's strong presence in central and
southern China will alleviate some of the losses from the
less-traveled colder northeast and northwestern regions.

U.S. Routes

¶15. (SBU) China Southern currently operates direct flights from Guangzhou to Los Angeles five days per week. According to Mimi Chan, China Southern International Relations staff, the L.A. route continues to lose money and China Southern has no immediate plans to increase its frequency. (In an April 2006 meeting, China Southern representatives said the airline was considering moving to seven flights per week by October 2006. At the same meeting, representatives said the L.A. flight is usually only 65 percent full in contrast to 70 percent for other flights and attracts too few business and first class passengers. See Reftel A)

¶16. (SBU) When asked about plans to offer a Beijing-New York flight (mentioned by China Southern representatives in the April 2006 meeting), Si declined to comment and said the airline is moving cautiously because of strong competition from Air China out of Beijing and has not yet made a final decision.

Suppliers: Boeing and GE

¶17. (SBU) Si emphasized that China Southern has good business relationships with both Boeing and GE, which produces the engines China Southern uses on its Boeing aircraft. He noted that China Southern introduced the Boeing 737, 757, and 777 to the China market and ordered 10 Boeing 787 Dreamliners in 2005. (China Southern also ordered six Boeing 777 cargo jets in October 2006 and 50 A320s in July 2006.) Si traveled to GE headquarters in the U.S. in June 2006 for two weeks of meetings and training, which he said has led to improved communication between senior management of both companies.

GUANGZHOU 00032347 002 OF 002

Working with U.S. Airlines

¶18. (SBU) When asked about cooperation with U.S. airlines, Si said China Southern works most closely with Delta and Northwest. (China Southern has a code-share agreement with Delta and a frequent-flier program with Northwest Airlines.) He said China Southern has invited partners to invest in its cargo business. Though three companies have expressed interest in cooperating on cargo flights, reportedly including Northwest, none have made investment offers.

Competitors

¶19. (SBU) Si said the expansion of Hong Kong's Cathay Pacific Airlines into mainland China has increased pressure on China Southern and other mainland airlines. He noted that Cathay Pacific has distinct advantages in pricing, international routes, and service. He added that senior management from Taiwan's China Air recently expressed the same concerns to him.

¶10. (SBU) Si doubted that China's growing number of small, private airlines would thrive because of problems relating to their small scale, poor safety management, and shortage of skilled staff. He said the China market currently has room for only the three dominant airlines.

Airbus 380 Flight to Guangzhou

¶11. (SBU) China Southern is the only Chinese airline that has agreed to purchase the A380, with five on order. On November 22, an A380 landed in Guangzhou's Baiyun Airport for flight certification testing. Mimi Chan told us that approximately 15 China Southern pilots and technicians flew with the airplane on a route that circled Guilin and returned to Guangzhou. The airplane then flew to Shanghai and Beijing.

GOLDBERG